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February 20, 1995

SUBJECT: Controlling Release of FRY Frozen Assets
under Plan B

One of the most important implementation issues underlying the Contact Group's Plan B offer to Milosevic is how to manage release of frozen assets. If the international community fails to handle this issue properly, Milosevic could get a massive infusion of cash that he can use to rectify his economy's most pressing problems or -- if the worst happens in Croatia or Bosnia -- finance a Serbian spring offensive. In the longer term, a maladroit release of assets will also give Milosevic significant advantage over the other Yugoslav successor states by helping him increase his creditworthiness while saddling others with a disproportionate share of outstanding Yugoslav debt.

Blocked assets include bank deposits, credits, debts, real estate and tangible property. We have a good idea of what is frozen in the U.S., but it is less clear how much is held by other governments. Issues to address in releasing blocked assets include determining ownership (successor state issues are not yet settled; paying depositors, creditors, and other claimants (there are numerous claims against blocked Yugoslav assets -- including by U.S. citizens and firms); and payment of war reparations and other penalties.

The U.S. Government should continue to insist that any UN resolution that unblocks assets mandate that these assets not be released until ownership is resolved and legal rights of successor states, creditors, and other claimants are protected. The U.S. should seek a thorough international inventory of frozen assets as a first step to their orderly distribution. Then, financial and banking experts should discuss how to unblock assets with due provision for the rights of successor states and creditors.

Remember that Milosevic is a banker. He will find it hard to object to such a process, while he certainly will be quick to take advantage of any openings we give him. So long as we require that claims be adjudicated, the time frame for releasing frozen assets is relatively long, which limits Milosevic's short-term access for purposes we might find objectionable and preserves some leverage for settling other issues.

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Declassify on: OADR

CONFIDENTIALImplementing Plan B

Conditions for sanctions relief	Requirements to enforce conditions
Addressed in 2/15 CG Proposal	
FRY recognition... must be genuine and unequivocal	<ul style="list-style-type: none"> • Clear definition of "genuine and unequivocal" recognition • Link definition to SC procedures for suspending and reimposing sanctions
Sanctions suspension for 2 month periods, positive SC vote needed for renewal each time	Unambiguous language in SC resolution suspending sanctions
Sanctions enforcement regime against FRY(S&M) must remain in place to allow quick reimposition of full sanctions	<ul style="list-style-type: none"> • SAMs structure remains in place • Front-line states retain enforcement mechanisms
Restrictions beyond UNSC resolutions to remain in force (no IFI assistance, no UN seat, no readmission to OSCE)	Agreement among CG that these items should be held back as long-term leverage against settlement of region's underlying security problems (e.g.: Kosovo, War Crimes Tribunal)
Significant toughening of monitoring regime on FRY borders with Bosnia and Croatia (more monitors and more equipment)	European agreement to deploy additional monitors and equipment
Sanctions relief to go into effect only after border is more tightly closed and Europeans have deployed additional monitors	Agreed definition of "acceptable" level of closure and monitoring
FRY continues to support CG plan for Bosnia	Links to reimposition and extension language in resolution
FRY endorses principles of Z-4 plan	Links to reimposition and extension language in resolution
NOT Addressed 2/15 CG Proposal	
Mechanism for immediate revocation of sanctions relief if FRY reneges	Unambiguous language in SC resolution stipulating conditions under which sanctions relief would be revoked
Closing the "Back Door:" Goods reaching Pale via Croatian and GOBH territory threaten to make FRY border closure irrelevant	<ul style="list-style-type: none"> • GOC and GOBH commitment to control trade with Pale Serbs; plus CG/International agreement to control trade on Croatia/Bosnia border (or to cut off both Pale and Knin Serbs) • Support (monitors, technical assistance) for GOC and GOBH • Clarify UNPROFOR role
Protecting interests of successor states and other claimants as financial sanctions are suspended	Agreement that assets will not be released until successor state, creditor, and other claimants concerns have been addressed
Prohibiting trade facilitation agreements with the FRY	Trade preferences and other agreements should be included in the list of non-UNSC sanctions cited above

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DCI Rep
SDO
Ext Sec.

TIME OF TRANSMISSION

TIME OF RECEIPT

**WHITE HOUSE
SITUATION ROOM**

CIA

PRECEDENCE: ~~IMMEDIATE~~
PRIORITY
ROUTINE

RELEASER: Kevin B. Wooten

DTG: _____

MESSAGE NO. 351 CLASSIFICATION SECRET PAGES 2 + cover

FROM R. Saunders (OVP/NSA)
(NAME) (PHONE NUMBER) (ROOM NO.)

MESSAGE DESCRIPTION "Plan B" implementation memo and chart

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TO (AGENCY)	DELIVER TO	DEPT/ROOM NO.	PHONE NUMBER
State	The Secretary		
Defense	The Secretary		
JCS	The Chairman		
CIA	The Acting Director		
USUN	Ambassador Albright		

REMARKS: FOR PRINCIPALS ONLY
The attached discussion paper and chart are for use during discussion of "Plan B" implementation at the Principals Committee meeting on Tuesday, February 21, 1995.

FOR PRINCIPALS ONLY